

April 2, 2004

Mayor's State of the City Report

As we enter the 2005 fiscal year, Annapolis, financially, is in good shape. While jurisdictions all around us wiggle and squirm through economic strains or even, as in the town of Luke, consider throwing in the towel on local government, our Capital City is on a rock solid foundation - albeit without careful nurturing one that could change swiftly just as the federal government budget has declined into billions of dollars of debt.

Preserving financial integrity has not been easy. Yet, consistent with prior year's actions, I am offering a budget that cuts the tax rate by two cents while holding our bottom line to the cost of living increase.

Last year, to fix gaps in revenue and expenditure demands, your tax bill reflected a State property tax rate increase of 4.8 cents, the County by a half a cent. While in Annapolis, your municipal government reduced the tax rate by 2.4 cents. Some dismissed this reduction as insignificant, preferring instead to further cap the state assessment increase. Yet in 1972, and in 1990, the Attorney General opined that variations in the assessment caps violates the Uniformity Clause of the State Constitution. Credit rating agencies also frown on imposed limits.

In the face of politicizing the tax issue, the City Council was able to stay the course for fiscal responsibility. In doing this, we were guided by the criteria set forth by our banking creditors. These "best practices" include:

1. Maintaining a fund balance reserve
2. Avoidance of imposed financial revenue limits in order to maintain flexibility
3. Multi year financial forecasting
4. Integration of operation costs into the five year capital improvement plan

What have our fiscal efforts produced?

Having adhered to sound fiscal practices, Annapolis has maintained a AA+ credit rating. This credit rating has made it possible to refinance high interest bonds at 2.5%, the lowest rate ever, and save the taxpayers \$650,000.

Our superior credit rating also allowed us to borrow money for expensive capital improvements at low interest rates, resulting in an anticipated tax savings of approximately \$450,000 in interest.

Mayor's State of the City Report

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Through careful management and changes in our ways of work, we have cut another \$650,000 in annual costs in insurance, utilities, and telephones.

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At the same time, while reducing costs, we have increased expenditures for public safety by four million dollars over two years.

Today, both the Annapolis Fire Department and the Annapolis Police Department have been awarded national accreditation for achieving the highest professional standards.

Police flight to other jurisdictions has stopped. On March 22, 2004, I swore in the 26th new police officer. Only three had been hired in the year 2001, prior to this administration.

Long time police officers have retired, desk officers have been replaced with civilians, and six neighborhood enforcement teams have expanded to ten officers.

More officers are on the street in communities partnering with residents. Trained and active resident Neighborhood Watches have grown from 1,000 to 2,940. The Clay Street Public Safety Team of residents, an outgrowth of the collaborative process between residents, police, and businesses, initiated by the City, was recognized for setting a best practice standard by the Governor's Commission on Crime Control.

On March 20, 2004 the Annapolis Police Department was awarded full accredited status through the Commission on Accreditation for Law Enforcement Agencies (CALEA). Law enforcement agencies at the federal, state and local levels can voluntarily demonstrate that they meet professional standards through the accreditation process.

The committee which reviewed the Annapolis Police Department was impressed that our assessment on-site team stated in their final report that this was one of the best initial on-site's that they had ever seen. They were equally impressed with our recruiting and the diversity in our department.

Of the 180 law enforcement agencies in Maryland there are currently only 23 municipal, county, college, housing and transportation police departments that are accredited in the state of Maryland. Annapolis Police Department now joins that select group.

Our partnerships with other agencies has paid off, too. On the Federal property of the Housing Authority, we recommended a new way-of-work that included resident training in crime watch and ten community police officers under the supervision of a new public safety director, who has just been hired.

Understanding the correlation between drugs and violence, the fact that Annapolis is an urban community, and that our city is geographically located between two large urban communities, over the past two years the Annapolis Police Department has been actively involved with the Drug Enforcement Agency, Alcohol Tax and Firearms, and the Secret Service. The various cooperative Task Forces have resulted in 239 drug arrests in 2002 and 261 in 2003. With some major cases being prosecuted in the Federal court system, significant sentences have been imposed and over \$300,000 in assets forfeited to the City. This partnering has helped to reduce

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violence in Annapolis which has achieved the lowest rate in a decade.

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Thanks to volunteer support and aggressive grant seeking, the City has made tremendous improvements to the environment. Landscape architect, Vern Husted, chair of the Landscape Architects Association, spent thousands of hours of professional time to develop a master plan for Back Creek Park. New grant monies have enabled us to stabilize eroding steep banks, develop a historic building using green standards, and capture Stormwater run off.

Over the next two years Back Creek will emerge as an exciting living classroom environmental education site.

In order to stretch the financial resources of Annapolis, we have vigorously pursued grants. The Navy Stadium renovation project is a shining example of a special effort which cobbled together thousands of dollars from a wide variety of funding sources - the City of Annapolis, Naval Academy Athletic Association, Maryland Department of Transportation, Chesapeake Bay Trust and Baltimore Gas and Electric.

In keeping with that philosophy of doing more with less, the City has received a whopping total of \$2,566,000 in environmental grants that have significantly helped to fund over twenty important environmental initiatives, touching the lives of thousands of people and critters large and small.

When bestowing the City with the much coveted Chesapeake Bay Partnership Gold Medal Award, the Environmental Protection Agency singled out Annapolis as the "...almost perfect example of a town/village Gold Bay Partner. Innovative Stormwater Management practices are being implemented in both new developments and re-developments. Practices implemented include bio-retention, Baysavers and Stormceptors. Nearly all planned developments in the city are required to protect open spaces through conservation easements. Annapolis has the only public urban land trust – the Annapolis Conservancy Board in the country. Annapolis is also a model for environmental management." The federal government went on to commend the City for its green purchasing practices, the installation of numerous rain gardens and living shorelines, our Clean Air initiatives and the planting of thousands of trees, our strict enforcement of the Critical Area Law, GreenScape, our adoption of mixed-use zoning which encourages traditional development, and our environmental outreach efforts to minority communities.

Through leading by example, developing partnerships with others and engaging an army of volunteers, Annapolis serves as a model for cities large and small when it comes to innovative environmental solutions to the many land use pressures that come with an urban area. The plain and simple truth is this: The good Lord isn't making any new wetlands or woods. But here in Annapolis, we are doing both while building coalitions and fostering a real spirit of cooperation.

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On the capital improvement front, bulldozers and carpenters will be everywhere. New homes will arise on the downtown hospital site within the year. Retail and condos and a hotel will begin at Park Place. The Knighton Garage, on hold when this administration began, will be finished in September. Street calming and

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clean city initiatives are tackling problems associated with urban living.

With a Two Million Dollar support from the State a new police station and emergency operation center, not planned in 2001, is set to begin construction in June. Location and concept plans for a new Recreation Center are complete. Community meetings, to focus on program and interior design, begin this Spring, with a late 2005 ground breaking anticipated.

Annapolis is hot! Fifty small businesses have chose to locate here this year, bringing 246 new jobs. The PACC initiative (Pre-Application Conference) has helped to streamline the permitting process for developers and small business owners. Opening this year, Annapolis Cares, the City initiative to serve residents with a helping hand, has brought 20 professional volunteer partners together with new entrepreneurs hoping to develop a business of their own. Spanish speaking staff assist members of the Hispanic community with a variety of quality of life concerns. Five hundred eighty-four (584) contracts to minority firms have been awarded. Minorities in management positions in City Government have more than tripled.

Are there issues that continue to challenge us?

Sure.

Excess demand for paramedic service plagues us. The issue is unresolved. Last year, I recommended an additional paramedic unit. I am still convinced we need it, but the City Council disagreed, and cut it from the budget.

This year, we requested State support to renovate the Eastport fire station for a high standard emergency medical support center, and were successful in securing \$250,000 to begin the design process.

Over the last two years, Habitat for Humanity and Homes for American have helped 92 families secure homes of their own. More needs to be done to move people from renting to home ownership. New affordable housing legislation, if passed, may offer additional tools to address this issue.

The repair of State highways leading into the city will test our patience - even as we work to secure new places to park and dramatically increase our shuttle service.

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Annapolis is a vibrant and vital city, populated by committed and compassionate people. In the Girl Scout way of work, this administration is driven by a goal to leave the community, for all of its citizens, in better shape than we found it. Step-by-step we are making advances, getting things done and tackling the tough issues.

Respectfully submitted

Ellen O. Moyer, Mayor

Changes from the FY 2005 Proposed to the FY 2005 Adopted Budget

The Mayor's State of the City Report is presented to the City Council and the Citizens of Annapolis as an accompaniment to the Mayor's Proposed Operating Budget and Capital Improvement Program. The State of the City Report highlights the Mayor's major initiatives and goals contained in the proposed budget for the upcoming year, focusing on the proposed property tax rate, organizational changes, and major capital projects. Once the Mayor's proposed budget has been presented to the City Council, the Council may then propose amendments to the Mayor's budget; these amendments are voted on during the City Council meeting at which the budget is adopted.

The Mayor's State of the City Report on the preceding four pages includes projects and changes that the Mayor had incorporated into her proposed budget; some of these were modified, replaced, or eliminated by the City Council when the budget was adopted.

Changes from the proposed budget to the adopted budget are as follows:

<i>Adjustments to Revenues</i>	<i>From</i>	<i>To</i>	<i>Change</i>
Proposed FY 2005 Revenues			\$57,525,690

Adopted FY 2005 Revenues			\$57,525,690
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<i>Adjustments to Expenditures</i>	<i>From</i>	<i>To</i>	<i>Change</i>
Proposed FY 2005 Expenditures			\$57,525,690

Decrease Contract Services - City Attorney	95,860	85,860	(10,000)
Decrease Contract Services -Human Resources	171,000	161,000	(10,000)
Increase Supplies - Law Enforcement	370,500	371,250	750
Increase Supplies - Fire Department	248,980	265,230	16,250
Increase Contract Services - Public Works : Traffic Control & Maintenance	16,300	41,300	25,000
Decrease Salaries - Recreation and Parks	1,509,050	1,489,050	(20,000)
Increase Special Projects - Recreation and Parks	90,090	100,090	10,000
Decrease Capital Outlay - Recreation and Parks	64,000	52,000	(12,000)
Adopted FY 2005 Expenditures			\$57,525,690

Budget Overview

Operating Program:

- The adopted operating budget of \$57,525,690 is an increase over FY2004 of 4.7%, the approximate cost of living increase in the Annapolis area.
- Rising property values along with newly occupied developments not only provided a major source of revenue for this increase, but also allowed for a two cent reduction in the City's property tax rate. This is the second year in a row that the rate has decreased and the sixth year in a row of no tax increase. The City's property tax rate for FY2005 will be \$.58 per \$100 of assessed value, a ten cent decrease from the FY1999 rate.
- Funding provides for a 3% cost of living salary increase and a sharing of the approximately 10% increase in health benefits for employees.
- Maintains the level of roadway improvement funding despite cuts in state aid in this area.
- Enhances Public Safety with four new police department positions, partnership funds for community policing operations in the federally owned Annapolis Housing Authority properties, new fire equipment and paramedic unit, and a reduction in work hours for fire personnel.
- Enhances domestic preparedness with training, communications, equipment, and facility additions and improvements.
- Increases transportation shuttle services to minimize traffic impact from road construction.
- Expands the Clean City program for graffiti removal, traffic calming initiatives, and the sidewalk repair program.
- Promotes the development of a Solid Waste Plan with the goal of reducing costs.

Capital Improvement Program:

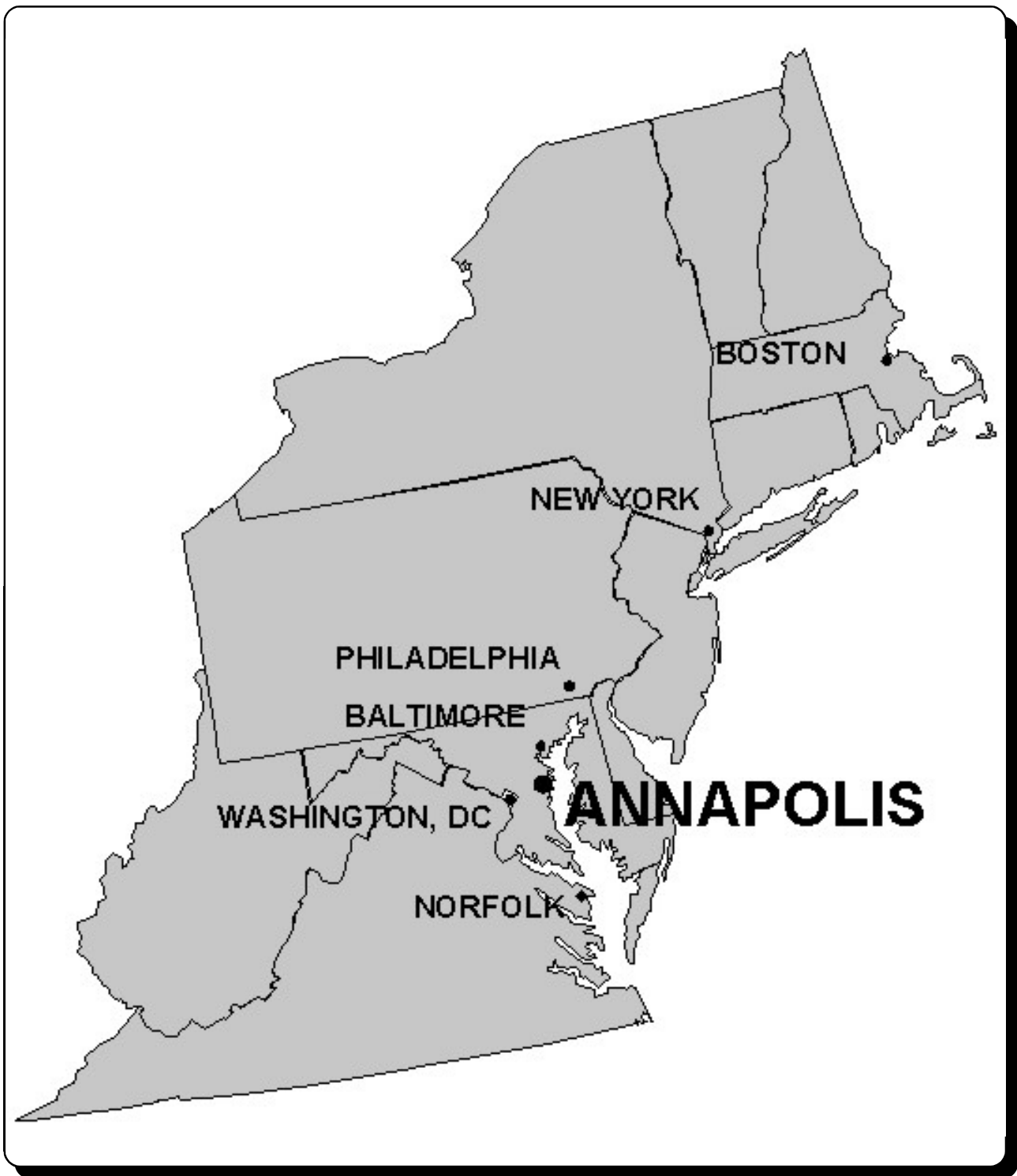
- The approved FY2005 capital budget is \$11,893,360 and the six year capital improvement program is now estimated at \$125,190,480. Under this program the City continues to be aggressive in attracting new development and commercial revitalization while providing improvements for current citizens and businesses.
- The City is in the final phases of construction on the \$13 million West Street revitalization project, the \$2 million Edgewood Road improvement, and the \$8 million Knighton parking garage facility.
- With the improved national economy the much anticipated Park Place mixed use development of a hotel, two office buildings, performing arts center, and residential complex has started and the City will be issuing the TIF bonds for the parking structure.
- With \$2 million in support from the State a new police station and emergency operation center is designed and set to begin construction. Also with support from the State the design of a new Eastport Fire Station will commence.

Budget Overview

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- Location and concept plans for a new Recreation Center are complete. Community meetings, to focus on program and interior design have begun with a July, 2005 ground breaking anticipated.
- Total renovation of the City's Market House is scheduled to begin in January, 2005.
- Preliminary funding has been provided for a comprehensive plan for long-term consolidation of City services and offices.
- Additional major road improvement and utility projects have been included in the long range plan.

Regional Map



Community Profile

Annapolis is an incorporated municipal corporation of the State of Maryland (the "State"), possessing substantial home rule powers under the State constitution. First settled in 1649 by Puritans fleeing Virginia, the City was chartered in 1708 and served as the capital of the United States when the Congress met there in 1783-84. The City serves both as the capital of the State and as the county seat for Anne Arundel County; and acquired home rule in 1954. Annapolis is situated on the Western shore of the Chesapeake Bay, at the mouth of the Severn River, east of and midway between Baltimore and Washington, D.C. The City has been the home of St. John's College (founded as King William's School) since 1696 and the United States Naval Academy since 1845.

The City covers an area of seven and one-half square miles. Population in 1950 was 10,047, but growth as well as annexation caused that figure to double by 1960 and more than triple by 1980. According to the 1990 Census, the population is 33,187, exclusive of the Naval Academy population of approximately 5,500. The Naval Academy constitutes a Federal enclave within the City, but is not within the corporate limits of Annapolis.

The appearance of the City is dominated by the handsome buildings of the Naval Academy and the historic State House of Maryland. In addition, there are a number of contemporary State and County office buildings which have been designed in keeping with the prevailing Georgian architecture of the community. Because of the number of residential structures of significant historic and architectural value for which Annapolis is famous, private and public groups have joined together to retain or to recapture the historic atmosphere of the community in keeping with modern urban requirements. An application to the Department of Interior to enlarge the then existing Historic District as designated on the National Register of Historic Places was approved in 1984. The Annapolis Comprehensive Plan was adopted by City Council in May, 1998.

Annapolis is served by three major highways, U.S. Routes 50/301, Maryland Route 2 and Interstate 97, which connect with the Chesapeake Bay Bridge, immediately northeast of the City. The District of Columbia is 27 miles to the west and the City of Baltimore is 27 miles to the north.

The City is governed by a Mayor and a City Council. The City is authorized to issue debt, subject to certain indebtedness limitations, for the purpose of financing its capital projects and to incur certain other indebtedness.

The executive offices of the City are located at the Municipal Building, 160 Duke of Gloucester Street, Annapolis, Maryland 21401.

The legislative body of the City is the City Council, consisting of the Mayor as the presiding officer and eight Aldermen who together comprise the City Council. One Alderman is elected from each of the eight wards into which the City is divided and must be a resident of the ward. The Mayor is elected at large. The Aldermen and the Mayor serve a four-year term, commencing in December of the year following the presidential election. The City Council has six standing legislative committees: Economic Matters, Finance, Public Safety, Rules and Government, Environmental Matters, and Housing and Human Welfare. The Mayor and Aldermen have one vote each. A simple majority is sufficient to pass legislation.

The City has independent jurisdiction over streets, street lighting, refuse collection and disposal, police, parks, harbor, off-street parking, public transportation, fire suppression and emergency services, planning and zoning, public health, water production and distribution, and sewage collection. Primary and secondary education is provided by the Board of Education of Anne Arundel County.

Demographic and Statistical Profile

Community Profile:

Date of Incorporation 1708
Form of government Mayor and Council

Demographics:

Area in square miles

2004 7.50
2003 7.50
2002 7.50

Climate

Average summer temperature (±5E) 71.9
Average winter temperature (±5E) 46.2
Average annual precipitation (inches) 40.8
Average annual snowfall (inches) 20.5

Population

2004 36,000
2003 36,000
2002 36,000
2001 36,000
2000 per U.S. Census 35,838
1999 35,000
1998 35,000
1997 35,000
1996 34,400
1995 34,400
1994 33,500
1993 33,500
1992 33,300
1991 33,300
1990 per U.S. Census 33,178

Median Age

2000 35.7

Age Composition (% in 2000)

Under 5 years 6.7
5 - 9 years 6.0

Age Composition (% in 2000), continued

10 - 14 years 5.6
15 - 19 years 5.9
20 - 24 years 6.9
25 - 34 years 17.7
35 - 44 years 15.7
45 - 54 years 14.3
55 - 59 years 5.3
60 - 64 years 4.0
65 - 74 years 6.3
75 - 84 years 4.4
85 + years 1.3

Household Income and Expenditures

Median Household Income \$49,243
Per Capita \$27,180
% below Poverty Level 12%
Median Housing Value
(owner-occupied) \$165,600
Median Mortgage Payment \$1,349
Median Gross Rent
(renter-occupied) \$762

Households and Housing Units

Households 15,303
Housing Units 16,165
Tenure
Renter 7,398
Vacancy Rate 3.8%
Owner 7,905
Vacancy Rate 1.4%

Economics:

Employment by Industry (%)

Construction / Landscape 5
Utilities 2
Trade 17
Fire, Insurance, and Real Estate 5
Services 21
Government 50

Demographic and Statistical Profile

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<u>Taxes</u>		2000	784	\$23,582,607
		1999	734	\$18,726,165
Local Retail Sales Tax Rate	5%	1998	699	\$17,660,208
Personal Income Tax Rate	5%	1997	738	\$18,868,634
Corporate Excise and Income Tax	7%	1996	697	\$19,624,695
Franchise Taxes:		1995	601	\$15,145,607
Financial Institutions - based on % of MD modified taxable income	7%			
Public Utilities - based on % of gross receipts apportioned to MD	2%			
Unemployment Compensation Tax - base rate	7.1%			

2004 Property Tax Assessed Valuation

Primary	\$3,082,080,524
Secondary	\$142,303,210

Building Permits

Commercial

<u>Year</u>	<u>Permits</u>	<u>Value</u>
2004	390	\$87,819,105
2003	355	\$30,470,365
2002	306	\$13,727,071
2001	290	\$23,978,994
2000	312	\$30,391,663
1999	271	\$13,810,889
1998	253	\$13,961,720
1997	260	\$12,432,670
1996	220	\$9,265,897
1995	279	\$15,904,944

Residential

<u>Year</u>	<u>Permits</u>	<u>Value</u>
2004	1,160	\$39,180,383
2003	1,113	\$42,498,578
2002	920	\$42,532,887
2001	836	\$57,536,150

Service Statistics:

Fire Protection (2004)

Stations	3
Career firefighters	98
Civilian personnel	5
Volunteer firefighters	60

Police Protection (2004)

Stations	1
Uniformed police officers	126
Civilian personnel	43
Police vehicles	105

Public Works (2004)

Water

Water mains in miles	128
Water treatment plants	1
Storage tanks	4
Water consumption (annually)	1,500 MG
Number of accounts	12,183

Sewer

Sewer lines and storm drains in miles	140
Sewer treatment plant (50% owned)	1
Sewer pumping stations	23
Sewage treated (annually)	1,900 MG
Number of accounts	11,183

Demographic and Statistical Profile

- continued -

Utility Rates

Gas (cents/therm)	
General service	
1st 10,000 therms	15.51
additional therms	7.65
Residential	17.86
Electric (cents/kwh)	
Summer	
General service	8.036
Residential	8.398
Non-Summer	
General service	5.449
Residential	
up to 500 kwh	7.311
over to 500 kwh	5.358

Recreation - City owned

Playgrounds and parks in acres	120
Baseball fields	5
Football fields	4
Basketball courts	11
Tennis courts	16
Playgrounds	20
Pools	1
Public Boat Ramps	12

Education - County provided

Elementary and secondary schools	9
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Education - County provided, continued

Elementary school enrollment	2,305
Middle school enrollment	1,075
High school enrollment	1,250
Colleges:	
U.S. Naval Academy enrollment	4,000
St. John's College enrollment	500
Anne Arundel Community College enrollment	15,000
Graduates continuing education	83%
Classes at or below desired student/teacher ratio	85%

Major Events

Maryland State Legislature in Session	January - April
Waterfront Festival	April - May
U.S. Naval Academy Commissioning	May
Independence Day Fireworks	July
Wine Festival	July
Maryland Seafood Festival	September
Anne Arundel County Fair	September
Maryland Renaissance Festival	September - October
U.S. Sailboat Show	October
U.S. Powerboat Show	October
Chesapeake Appreciation Days	October
Christmas Lights Parade	December
First Night Annapolis	December

The Budget Process Schedule

September

- Budget Summit with Mayor and City Council
- Goals and Objectives for the City are reviewed

November

- Finance prepares Preliminary Revenue Estimates
- Finance prepares Operating and Capital Budget Instructions

December

- Departments submit Enhancement Requests
- Citizen Budget Workshops held

January

- Departments submit Operating and Capital Budget Requests
- Departments Operating Budget and Enhancement Requests reviewed with Mayor

February/March

- Finance prepares Operating and Capital Budgets with Mayor
- Capital Improvement Plan is reviewed with the Planning Commission

April

- Mayor's Proposed Operating Budget submitted to Council by second Monday
- Budget Legislation to Council for First Reader
- Finance Committee holds Public Hearings on the Mayor's Proposed Operating and Capital Budgets with Department Directors
- Council Public Hearing held on Proposed Operating Budget and Constant Yield Tax Rate

May

- Finance Committee recommendations on the Mayor's Proposed Operating Budget to the Council by second Monday
- Council Adopts the Operating and Capital Budgets

July

- Fiscal Year begins on July 1

The Budget Development Process

- continued -

Budget Adoption:

The City Charter requires that the Mayor submit a proposed budget (for all funds except the Internal Service Fund, the Pension Trust Fund and the Special Revenue Fund) to the City Council no later than the second Monday in April of each year for the fiscal year commencing the following July 1st. The Finance Committee makes recommendations on the budget to the full City Council. The City Council conducts public hearings on the budget. No later than June 30th, the budget is legally enacted through passage of a budget ordinance which establishes spending authority by fund for the operations of the City. The level on which expenditures may not legally exceed appropriations is the fund level and budget revisions at the fund level require City Council approval.

Budget Revisions:

Procedure for Changes: Because there needs to be a document setting forth each request for a change to the budget, the Finance Office has devised what it calls a budget revision form. This form specifies which line-item budgets are being changed and by how much - and it provides an explanation of, and a justification for the transaction or circumstances that have necessitated the budget change(s). It also provides for the signature of the department director making the request and the signature of the Finance Director affirming the sufficiency of funds supporting the change.

Approval for Changes: Because it is the City Council that establishes the original operating and capital budgets, it is the City Council that must approve changes at the fund level. Members of the Council are appointed to the Finance Committee to do the business of hearing requests for budget changes, evaluating them, and making

recommendations to the Council with regard to them.

Budget Basis:

The budgets of general government type funds are prepared on a modified accrual basis. Under this basis, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred, if measurable, except for debt service which is recognized when due.

The Comprehensive Annual Financial Report (CAFR) is prepared on the basis of Generally Accepted Accounting Principles (GAAP). In most cases this conforms with the way the budget is prepared, with the following exceptions. In the General Fund, the budget basis differs from GAAP in that the budget basis reflects encumbrances as the equivalent of expenditures. GAAP reflects encumbrances only as reservations of fund balance. Also, under the budget basis, interfund transfers are considered the equivalent of revenues and expenditures of the affected funds. In addition, new capital leases are recorded as expenditures and other financing sources only on a GAAP basis. The Comprehensive Annual Financial Report shows fund expenditures and revenues on both a GAAP basis and budget basis for comparison purposes.

The enterprise funds (Water, Sewer, Off Street Parking, Dock, Market, Transportation, Stormwater Management, and Refuse) are budgeted on a full accrual basis. This means that revenues are recognized when they are earned, i.e. water use fees are recognized as revenue when bills are produced, and expenditures are recognized when the liability is incurred.